

February 6, 2006

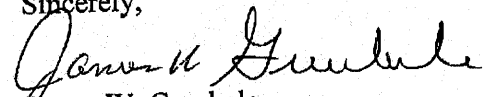
Mr. David Ikari, Chief
Dairy Marketing
California Department of Food and Agriculture
1220 N Street
Sacramento, California 95814

Dear Mr. Ikari:

This post hearing brief is for the hearing that was held on January 31, 2006 on milk movement incentives.

1. I was not asked the question of whether 5 cent per cwt additional "transportation allowance" incentive would attract some milk away from the Corona Cheese plant to Class 1 plants. My answer would have been that cheese plants will take whatever action is necessary to maintain a milk supply that will ensure that the plant operates as close to full capacity as possible. The cost of doing business escalates rapidly when manufacturing plants lose milk volume that in turn means that the plant's excess capacity increases. It is far less expensive for the cheese plant to match increased transportation allowances than it is to secure alternative milk supplies. There is no need for CDFA to implement a program of over-subsidizing producers in Southern California. It is not going to work. We stand on the principles we discussed at the hearing. Producers should not be over-compensated for moving milk to Class 1 milk plants.
2. LOL has an arrangement with CDI to serve its customer with condensed skim milk. However, we stand by our testimony that the transportation credit for condensed skim should continue. If LOL were to service the Class 1 plants in Southern California with condensed skim, it would result in net cost savings to the pool. As mentioned in the testimony, it is clear from the Departmental exhibit, Figure 8, that it is more efficient for LOL to supply the condensed skim than it is for CDI to do so from the Artesia plant.
3. Again, we reject the proposal by Western United to eliminate transportation credits for condensed skim. We gave ample reasons in the testimony and we do not need to restate those reasons here.
4. Again, as stated in the testimony, we should all be concerned about competition from other source milk and milk products, like condensed skim. The last sentence in the testimony summarizes our viewpoint. "We need to do everything we can to make California more competitive with out-of-state sources. Making the needed cost justified adjustments to the transportation credit and allowances can help to do this." I would add, maintaining a program of transportation credits with cost justified changes for condensed skim is also an important step to make California more competitive with out-of-state sources of condensed skim.

Sincerely,


James W. Gruebele
Dairy Industry Consultant representing
Land O' Lakes, Inc.